



DENALI COMMISSION

510 'L' Street, Suite 410
Anchorage AK 99501

(907) 271-1414
Fax (907) 271-1415
Toll Free (888) 480-4321
www.denali.gov

March 24, 2005

Memorandum for: The Federal Co-Chair

Subject: OIG Report DC 05-01
FY 2004 Financial Statement Audit
and Accompanying Documents

The enclosed report presents the results of the audit of the Denali Commission's financial statements for the fiscal year ended September 30, 2004. The report should be read in conjunction with the Commission's financial statements and notes to fully understand the context of the information contained therein.

The Denali Commission contracted with the independent certified public accounting firm of M.D. Oppenheim & Company, P.C. to audit the financial statements of the Commission as of and for the year ended September 30, 2004. In its audit, M.D. Oppenheim & Company, P.C. found the financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.

The Accountability of Tax Dollars Act of 2002 requires the Denali Commission to prepare and submit audited financial statements and to consolidate the audited financial statements and other financial and performance reports into a combined Performance and Accountability Report in accordance with OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*.

However, because the Commission is a state-wide development agency designed to function as a federal, state, and local partnership, the Commission concluded that the reporting formats established by the Financial Accounting Standards Board (FASB) would provide more meaningful information to users of the Commission's financial statements than would be available if standards recommended by the Federal Accounting Standards Advisory Board (FASAB) were followed. Under either set of standards, the Commission determined that the financial condition and results of operations would not result in a significant difference in the recognition and measurement of the Commission's accounting transactions and events. Therefore, the Commission's financial statements have been prepared in accordance with standards set by FASB.

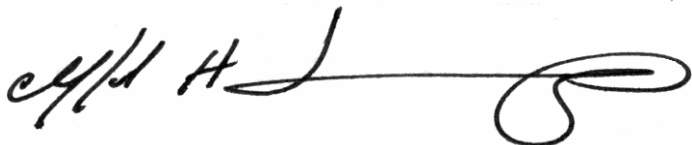
The audit was conducted in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. The results of the audit were discussed with Commission officials and the OIG throughout the

audit. Commission officials responded to the finding and recommendation on compliance presented in draft report and management's response has been included in the final report.

M.D. Oppenheim & Company, P.C is responsible for the attached auditors' report dated January 27, 2005 and the conclusions expressed in the report. We do not express opinions on the Denali Commission's financial statements or internal controls.

In connection with the contract, we reviewed M.D. Oppenheim & Company's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted auditing standards, was not intended to enable us to express, and we do not express, opinions on the Denali Commission's financial statements or internal control. M.D. Oppenheim & Company, P.C is responsible for the attached auditors' report dated January 27, 2005 and the conclusions expressed in the report. However, our review disclosed no instances where M.D. Oppenheim & Company, P.C did not comply, in all material respects, with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States.

I appreciate the cooperation given by Denali Commission staff to my office and M.D. Oppenheim & Company, P.C., during the audit.

A handwritten signature in black ink, appearing to read 'C/H Jennings', followed by a long horizontal line that ends in a large, stylized loop.

Clifford H. Jennings
Inspector General

Attachments

cc: Administrator, Denali Commission

DENALI COMMISSION

ANCHORAGE, ALASKA

Financial Statements and Independent Auditors' Report

September 30, 2004

Table of Contents

Independent Auditors' Report	1
Balance Sheet	3
Statement of Operations and Changes in Net Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6
Additional Information	11
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	13
Finding and Recommendation on Compliance.....	15

To the Commission Members
Denali Commission
Anchorage, AK

Independent Auditors' Report

We have audited the accompanying balance sheet of the Denali Commission as of September 30, 2004, and the related statement of operations and changes in net position and cash flows for the year then ended. These financial statements are the responsibility of the Denali Commission's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Denali Commission as of September 30, 2004, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2005 on our consideration of the Denali Commission's internal controls over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The Commission Members
Denali Commission
Anchorage, AK

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

M.D. Oppenheim & Company, P.C.

Silver Spring, Maryland
January 27, 2005

DENALI COMMISSION
Balance Sheet
September 30, 2004

	2004
ASSETS	
Current assets	
Fund balance with Treasury	\$ 183,996,949
Restricted cash	1,209,743
Accounts receivable	24,878
Advances to grantees	5,258,647
TOTAL ASSETS	190,490,217
LIABILITIES AND NET POSITION	
Current liabilities	
Accounts payable	123,620
Grants payable	54,138,665
Liability for pass-through funding	1,209,743
Accrued payroll	368,484
Accrued leave	55,423
TOTAL LIABILITIES	55,895,935
Net position	134,594,282
TOTAL LIABILITIES AND NET POSITION	\$ 190,490,217

See accompanying notes and Independent Auditors' Report

DENALI COMMISSION
Statement of Operations and Changes in Net Position
Year ended September 30, 2004

	2004
REVENUES	
Appropriations received	\$ 56,000,000
Appropriations transferred in	1,988,200
Less: Recissions	(330,400)
Appropriations (net)	57,657,800
Transfers from other federal agencies	58,142,900
Other revenue	4,273,719
Total revenues	120,074,419
EXPENSES	
Program costs	80,365,206
Administrative expenses	5,704,015
Total expenses	86,069,221
NET INCOME	34,005,198
Net position, beginning of the year	146,429,406
Prior period adjustment	(45,840,322)
Net position, beginning of the year as restated	100,589,084
NET POSITION, END OF YEAR	\$ 134,594,282

See accompanying notes and Independent Auditors' Report

DENALI COMMISSION
Statement of Cash Flows
Year ended September 30, 2004

	2004
Cash flows from operating activities:	
Net income	\$ 34,005,198
Adjustments to reconcile income to net cash provided by operating activities:	
Prior period adjustment	(45,840,322)
Changes in assets and liabilities:	
Advances to grantees	(5,258,647)
Accounts payable	(139,581)
Grants payable	54,138,665
Liability for pass-through funding	428,197
Accrued payroll	368,484
Accrued leave	55,423
Net cash provided by operating activities	37,757,417
Net increase in cash	37,757,417
Cash at beginning of year	147,449,275
CASH AT END OF YEAR	\$ 185,206,692
Supplemental disclosures:	
Income taxes paid	\$ 0
Interest paid	\$ 0

See accompanying notes and Independent Auditors' Report

DENALI COMMISSION
Notes to Financial Statements
Year Ended September 30, 2004

Note A – Organization and Mission

The Denali Commission (the “Commission”) was established under the Denali Commission Act of 1998 (P.L. 105-277, Division C, Title III), as amended and 42 U.S.C. Chapter 38, Sec. 3121. The Commission, a “designated” federal entity as published by the Office of Management and Budget under the Inspector General Act of 1978, functions as a unique federal-state-local partnership to address crucial needs of rural Alaskan communities, particularly isolated Native villages and other communities lacking access to the national highway system, affordable power, adequate health facilities and other impediments to economic self-sufficiency.

The Commission is comprised of seven members who are appointed by the Secretary of the U.S. Department of Commerce. The Federal Co-chair serves a term of four years and may be reappointed. The other six Commissioners are the heads of Alaskan state and non-governmental organizations and have been appointed for the life of the Commission.

The mission of the Commission is to partner with tribal, federal, state, and local governments and collaborate with all Alaskans to improve the effectiveness and efficiency of government services, to develop a well-trained labor force employed in a diversified and sustainable economy, and to build and ensure the operation and maintenance of Alaska’s basic infrastructure.

Note B – Summary of Significant Accounting Policies

1. **Major Programs** – The Commission provides approximately 95 percent of its funding to projects in the areas of economic development, energy, health care, training, and other infrastructure. Funding for the projects is provided from general federal appropriations as well as funds from the Department of Health and Human Services, the Environmental Protection Agency, the USDA Rural Utilities Service, the Department of Labor, and the Department of Housing and Urban Development. Matching funds comprise approximately 41 percent of total project costs.
2. **Reporting Entity** – These financial statements include all of the activities of the Commission including its program and administrative operations. The Commission is also a component unit of the U.S. Government financial reporting entity.
3. **Basis of Presentation** – These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

DENALI COMMISSION
Notes to Financial Statements
Year Ended September 30, 2004

Note B – Summary of Significant Accounting Policies (continued)

4. **Basis of Accounting** - The accompanying financial statements have been prepared using the accrual method of accounting. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. Appropriations are recognized as revenues when they are received.
5. **Financing Sources** - The Commission receives annual no-year federal appropriations to fund program grants and its operations. Funds are available until expended. Intragovernmental funds transferred from other federal agencies are used to carry out Commission programs.
6. **Fund Balance with Treasury** – Cash receipts and disbursements for operations are processed by the Department of Treasury. Funds held by the Department of Treasury represent funds available for operations.
7. **Restricted Cash** – Pass-through funds from other federal agencies which the Commission pays to non-federal organizations in Alaska are held on the agencies' behalf.
8. **Accounts Receivable** – Management considers all receivables to be fully collectible at year-end. Accordingly, no allowance for doubtful accounts has been recorded.
9. **Advances to grantees** – Payments to grantees are recorded as expenses when disbursements are made. Material amounts of unexpended grant funds in the hands of grantees at the end of the fiscal year are reclassified as advances.
10. **Equipment and Software** – Equipment and software with an acquisition cost of \$10,000 and a useful life of at least two years must be capitalized. As no assets of the Commission meet this threshold, all equipment and software purchases have been expensed as incurred.
11. **Accrued Leave** – Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Each year the balance in the accrued annual leave account is adjusted to reflect current accrual at current pay rates.
12. **Retirement Plans** – Commission employees participate in federal retirement plans.
13. **Use of Estimates** – The preparation of the accompanying financial statements requires management to make estimates and assumptions about certain estimates included in the financial statements. Actual results will invariably differ from those estimates.

DENALI COMMISSION
Notes to Financial Statements
Year Ended September 30, 2004

Note C – Trans-Alaska Pipeline Liability Trust Fund

The Denali Commission Act of 1998 states that one of the purposes of the Commission is to promote rural development, provide power generation and transmission facilities, modern communication systems, water and sewer systems and other infrastructure needs. The Coast Guard and the Environmental Protection Agency enlisted the assistance of the Commission to help in bringing bulk fuel tanks in Alaska up to environmental and safety standards as set by the two agencies.

To facilitate this work, the Commission was assigned the interest earned on a portion of the principle from the Trans-Alaska Pipeline Liability (TAPL) Trust Fund. The use of the interest money is restricted to bulk fuel tank renovation or construction. An administrative fee of 5 percent is charged for the administration of these funds. The Commission received \$4,273,719 from the TAPL Trust Fund in FY 2004 in support of this effort.

Note D – Pass-through Funding

The Denali Commission Act of 1998 states that one of the purposes of the Commission is to deliver the services of the federal government in the most cost-effective manner practicable by reducing administrative and overhead costs. In the spirit of this legislation, the Commission has offered a service to other federal agencies whereby a federal agency may utilize the Commission to make payments to non-federal organizations in Alaska on the agency's behalf. No fee is collected for this service. In FY 2004, 3 agencies used this service to disburse funding totaling \$1,379,490.

Note E – Transfers from Other Federal Agencies

The Commission received intragovernmental revenue from other federal agencies for the year ended September 30, 2004 as follows:

Department of Health & Human Services	\$ 34,693,000
Environmental Protection Agency	3,479,400
USDA Rural Utilities Service	15,000,000
Department of Labor	4,970,500
Total	<u>\$ 58,142,900</u>

DENALI COMMISSION
Notes to Financial Statements
Year Ended September 30, 2004

Note F – Retirement and Other Benefit Plans

The Commission participates in the Federal Employees Retirement System (FERS) for federal employees. The FERS plan is administered by the United States Office of Personnel Management (OPM). The Commission makes contributions at rates applicable to agencies of the federal government. The contributions do not equal the full service cost of the pension expense, which is the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period. The measurement of service costs requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM.

The excess of total pension expense over the amount contributed by the Commission and Commission employees represents the amount which must be financed directly by OPM. The Commission does not recognize in its financial statements the excess amounts as they are deemed to be immaterial. Contributions to the plan for FY 2004 were \$224,101.

Several employees also participate in the Federal Employees Health Benefit plan (FEHB) and the Federal Employees Group Life Insurance program (FEGLI), also administered by OPM. The Commission pays the cost of current employees. Post-retirement benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs as they are not deemed material. Contributions to these plans for FY 2004 were \$48,142 and \$1,568 for FEHB and FEGLI, respectively.

The Commission does not report in its financial statements CSRS, FERS, FEHB or FEGLI assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its employees.

The Commission also contributed \$32,459 to the Federal Thrift Savings plan for all eligible employees for the year ended September 30, 2004.

DENALI COMMISSION
Notes to Financial Statements
Year Ended September 30, 2004

Note G – Lease

The Commission's lease for its office commenced on February 1, 2003 and extends through July 31, 2010. It provides for increases in annual base rent of 2 percent per year beginning August 1, 2003, and every year thereafter for the remainder of the lease term. The future minimum lease payments required under this lease are as follows:

<u>Year Ended September 30,</u>		<u>Amount</u>
2005	\$	377,000
2006		391,000
2007		399,000
2008		407,000
Thereafter		766,000
Total	\$	<u>2,340,000</u>

Note H – Prior Period Adjustment

Generally accepted accounting principles require that financial information be recorded on an accrual basis. The Commission previously did not accrue amounts related to its grants. A prior period adjustment in the amount of \$45,840,322 was recorded to properly reflect the net position of the Commission as of September 30, 2003 on an accrual basis.

Additional Information

Federal Budgetary Data

The following summarizes the budgetary data related to the Commission's federal appropriations for the year ended September 30, 2004:

BUDGETARY RESOURCES

Budget authority – appropriation	\$ 60,273,720
Net transfers	1,988,200
Unobligated balance brought forward October 1	1,861,299
Spending authority from offsetting collections	58,875,489
Permanently not available	<u>(330,400)</u>
Total budgetary resources	<u>122,668,308</u>

STATUS OF BUDGETARY RESOURCES

Obligations incurred	113,664,279
Unobligated balance	<u>9,004,029</u>
Total budgetary resources	<u>\$ 122,668,308</u>

To the Commission Members
Denali Commission
Anchorage, AK

Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the Denali Commission as of and for the year ended September 30, 2004, and have issued our report thereon dated January 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Denali Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance as reported in the accompanying Finding and Recommendation on Compliance, that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Denali Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Commission Members
Denali Commission
Anchorage, AK

This report is intended solely for the information and use of the Inspector General, the Commission Members, management and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

M.D. Oppenheim & Company, P.C.

January 27, 2005

Grant Reporting

During our audit testing of the Commission's grant files, we noted a lack of timely submission of grant progress reports, the lack of timely closeout of the grants, and delinquent reports not followed up on in a timely manner. We sampled a total of 20 grant files for compliance with the Commission's grant provisions and found that in 7 (35%) of the files, progress reports were not submitted on time or at all. In all 7 of those files, follow-up to obtain the delinquent reports was not done timely. In 3 (15%) of the files where the grant period had expired, an award closeout was not submitted by the grantee within 90 days after the period of performance.

The Commission's grant agreement general provisions states that:

- 1) Progress Reports – At a minimum, Program Managers must require that a Recipient of a Financial Assistance Award report on an annual basis through the Project Database. Reporting can also be required on a quarterly or bi-annual basis through the Project Database. The reporting schedule is established in the Financial Assistance Award agreement, all progress reports are due 30 days after the end of the reporting period.
- 2) Award Closeout – The award closeout must be completed within 90 days of the end of the Award performance period or within 90 days of the completion of the project, whichever is earlier.

The lack of timely reporting to the Commission by the grantees increases the risk that federal funds are not being expended in accordance with the grant agreements, and management cannot effectively monitor its grant programs.

Recommendation

We recommend that the Denali Commission develop policies and procedures to effectively monitor grantee compliance with grant reporting requirements, which would include requiring progress reports to be submitted quarterly and to promptly follow-up when any instances of non-compliance are noted.

Management's Comment

The Federal Office of the Denali Commission instituted mandatory quarterly reports for all award recipients, as of October 1, 2004. The Project Database has been refined to automatically generate delinquent report letters to recipients the day after quarterly reports are due. Two weeks later, absent a report, the Database automatically generates a second delinquency letter to the recipient. Two weeks after that date (six weeks after the report due date) the Grants Manager manually generates a letter to the award recipient, signed by the Executive Director, that states that the recipient's access to award funds is suspended, pending receipt of the delinquent quarterly report. Should it be necessary to suspend a recipient's financial account, the action is expedited within the agency and occurs the same day the decision is made to suspend.